

Finolex Cables Ltd (FNXC IN)

Higher copper prices, impacted margin

INDIA | MIDCAP - ELECTRICALS | Quarterly Update

31 May 2017

Top takeaways from Q4FY17

- Revenues at Rs 7.8bn up 10% yoy (5% above our estimates).
- Electrical wires and cables (EWC) (64% of sales) have registered a growth of 9% yoy, Copper Rods (18% of sales) up 65% yoy, Communication Cables (16% of Sales) up 17% yoy & other segment (New product line) up 17% yoy.
- Gross margins of 27.6% (down 202bps yoy), due to higher RM cost.
- OPM at 12.9% (down 331 bps yoy), higher RM cost and higher operating expenses (additional cost of new product line & Rs 125mn provision for J-power).
- EBIDTA was at Rs1 bn, down 12% yoy (PC: estimates of Rs 972mn).
- Lower interest cost resulted in a PAT of Rs 755mn down 13% yoy, (PC: Estimates of Rs 731 mn).

Key highlights: Higher copper prices in 4QFY17 (up ~20% yoy, 11% qoq). Slightly higher inventory in the channel and price hike taken in 3QFY17, restricted company to pass on the copper price increase in 4QFY17. This has resulted in lower gross margin. Additionally, higher operating & promotional expenses resulted in decline in EBIDTA margins. Repayment of debt, resulting in Lower interest cost, PAT of Rs 755mn.

Other takeaways

- ⇔ Higher copper prices during 4QFY17 (up 20% yoy). Company has taken price hike of ~5% in 4QFY17. Expect further price hike in 1QFY18.
- ⇔ EWC saw a marginal (~3% yoy) volume growth in 4QFY17, For FY17 – up 7%.
- ✓ Communication cable business saw a volume growth of 30% yoy in 4QFY17, For FY17 – up 22%.
- ✓ During 4QFY17, Finolex expanded its product offering in Switchgear range, expect with increasing product range, profitability and market share to increase.
- ⇔ **Lamps:** Pricing pressure during FY17, preference shifted towards LEDs, resulted in lower growth. FNXC focussed towards maintaining profitability rather than increasing market share.
- ✓ Expects new products to contribute significantly to revenues over next 2-3 years.
- * J-Power (JV), continued under stress, during 4QFY17. Company infused Rs 125mn, expect to get approval by FY18 end.

Outlook and valuation: We believe that its product categories (current and planned), inherent strength of business model, and superior reach, offer superlative comfort as an investment, especially in a sluggish economic environment. Due to fluctuation in commodity prices and Higher operating & promotional expenses, we have reduced our revenue and EBITDA no. for FY18/FY19. Although we have slightly increased our PAT number by 1.6% for FY19 because of higher other income and lower interest outgo. In light of its cash flows and balance-sheet strength, we expect its valuations to gradually align with that of its peers. Due to its imminent transformation into a multi-product electrical company over the next 24 months, we have maintain our BUY recommendation, with a revised **Target price of Rs 550** (early Rs520) rolled over to FY19, maintaining our target multiple of 22x.

(Rs mn)	Q4FY17	Q4FY16	yoy growth %	Q3FY17	qoq growth %	vs. expectations %	Comments
Revenue	7,846	7,119	10.2	6,754	16.2	5.0	Volume growth in Communication Cables & higher Copper price.
EBITDA	1,011	1,153	(12.3)	802	26.2	4.0	
EBITDA margin (%)	12.89	16.20	-331bps	11.87	102bps	-11bps	Higher RM, operating exp. And promotional exp.
Interest	6	14	(59.9)	13	(56.0)	(71.6)	Lower Debt
Depreciation	125	183	(31.7)	119	5.1	(22.0)	
Other income	142	184	(22.6)	169	(16.0)	(16.4)	Gains on investments
PBT	1,023	1,140	(10.3)	839	21.9	6.3	
Tax	268	274	(2.4)	155	73.0	16.0	
Tax rate (%)	26.19	24.08	211bps	18.45	774bps	0bps	
PAT	755	865	(12.8)	684	10.3	3.2	
EPS (Rs)	4.9	5.7	(12.8)	4.5	10.3	3.2	

Buy (Maintain)

CMP RS 501

TARGET RS 550 (+10%)

COMPANY DATA

O/S SHARES (MN) :	153
MARKET CAP (RSBN) :	75
MARKET CAP (USDBN) :	1.2
52 - WK HI/LO (RS) :	571 / 288
LIQUIDITY 3M (USD MN) :	0.6
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Mar 17	Sep 16	Jun 16
PROMOTERS :	37.3	37.3	37.3
FII / NRI :	6.4	7.9	7.9
FI / MF :	19.8	18.2	17.5
NON PRO :	24.7	7.8	8.2
PUBLIC & OTHERS :	11.7	28.9	29.1

KEY FINANCIALS

Rs mn	FY17	FY18E	FY19E
Net Sales	25,185	27,227	29,931
EBIDTA	3,715	4,051	4,567
Net Profit	3,159	3,440	3,838
EPS, Rs	20.7	22.5	25.1
PER, x	24.3	22.3	20.0
EV/EBIDTA, x	15.2	13.9	12.3
P/BV, x	4.1	3.5	3.1
ROE, %	18.2	17.0	16.5

CHANGE IN ESTIMATES

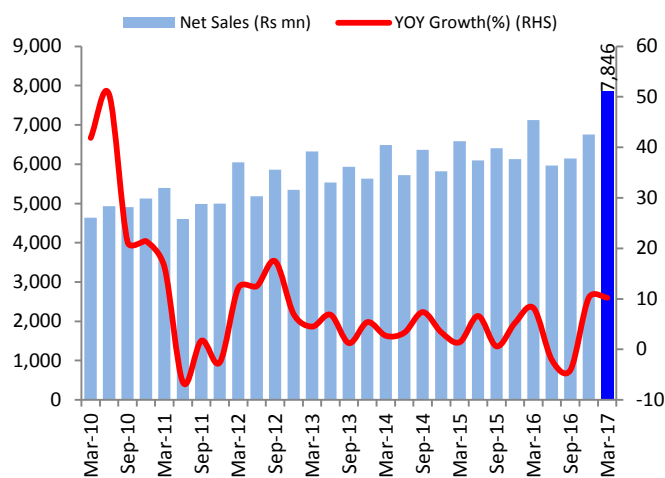
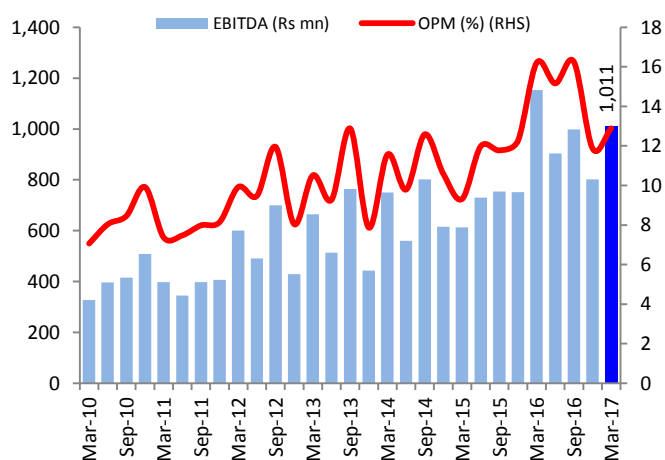
Rs mn	Revised Est.		% Revision	
	FY18E	FY19E	FY18E	FY19E
Revenue	27,227	29,931	-5.1	-5.7
EBITDA	4,051	4,567	-4.1	-4.6
OPM (%)	14.9%	15.3%	16bps	17bps
PAT	3,440	3,838	-0.2	1.6

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Segment wise results

Rs mn	4QFY17	4QFY16	% yoy	3Q FY17	% qoq
Net Revenues					
Communication Cables	1,521	1,299	17.1	1,029	47.8
Copper Rods	1,731	1,052	64.6	1,427	21.3
Electric Cables	6,039	5,557	8.7	5,597	7.9
Others	159	135	17.4	93	71.1
Less: Inter Segment Revenue	1,603	924	73.5	1,392	15.2
Net Sales/Inc. From Ops.	7,846	7,119	10.2	6,754	16.2
Segment PBIT					
Communication Cables	154	254	(39.6)	31	395.8
Copper Rods	(31)	171	(118.3)	(11)	184.5
Electric Cables	1,628	1,015	60.4	799	103.9
Others	(122)	(39)	213.1	(8)	1,346.4
(-)Interest	6	14	(59.6)	13	(56.0)
(-)Net Unall Exp	601	248	142.6	(41)	(1,551.2)
PBT	1,023	1,140	(10.3)	839	21.9
PBIT Margin(%)					
Communication Cables	10.1	19.6	-	3.0	-
Copper Rods	(1.8)	16.2	-	(0.8)	-
Electric Cables	27.0	18.3	-	14.3	-
Others	(76.6)	(28.7)	-	(9.1)	-

Source: Company, PhillipCapital India Research

Net sales and yoy growth trend

EBITDA & OPM trend


Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17	FY18e	FY19e
Net sales	24,234	25,185	27,227	29,931
Growth, %	-1.0%	3.9%	8.1%	9.9%
Raw Material expenses	16,749	16,702	17,769	19,556
Operating expenses	3,018	3,577	4,084	4,340
Employee expenses	1,077	1,192	1,323	1,469
EBITDA (Core)	3,389	3,715	4,051	4,567
Growth, %	30.5%	9.6%	9.1%	12.7%
Margin, %	14%	15%	15%	15%
Depreciation	580	480	493	524
EBIT	2,809	3,234	3,558	4,043
Growth, %	43.5%	15.1%	10.0%	13.6%
Margin, %	12%	13%	13%	14%
Interest paid	90	43	37	32
Other Non-Operating Income	644	1,002	1,006	1,038
Non-recurring Items	0	0	0	0
Pre-tax profit	3,364	4,193	4,526	5,049
Tax provided	876	1,034	1,086	1,212
Profit after tax	2,488	3,159	3,440	3,838
Growth, %	41.3%	26.9%	8.9%	11.6%
Margin, %	10.3%	12.5%	12.6%	12.8%
Net Profit (adjusted)	2,488	3,159	3,440	3,838
No. of Eq. Sh O/S (m nos)	153	153	153	153

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17	FY18e	FY19e
Cash & bank	2,187	2,009	3,451	5,018
Debtors	1,259	1,244	1,428	1,569
Inventory	3,293	4,620	4,989	5,460
Loans & advances	1,086	624	624	624
Other current assets	0	0	0	0
Total current assets	7,826	8,497	10,492	12,671
Investments	7,005	8,959	9,959	10,959
Gross fixed assets	11,182	11,489	12,020	12,770
Less: Depreciation	6,860	7,340	7,833	8,357
Add: Capital WIP	31	82	100	100
Net fixed assets	4,354	4,230	4,287	4,514
Total assets	19,184	21,686	24,738	28,144
Current liabilities	2,385	2,089	2,253	2,466
Provisions	77	365	365	365
Total current liabilities	2,461	2,454	2,618	2,831
Debt	524	268	268	268
Deferred Tax Liability	244	189	189	189
Total liabilities	3,229	2,911	3,075	3,288
Paid-up capital	306	306	306	306
Reserves & surplus	15,650	18,469	21,356	24,550
Shareholders' equity	15,956	18,775	21,662	24,856
Total equity & liabilities	19,184	21,686	24,738	28,144

Source: Company, PhillipCapital India Research Estimates

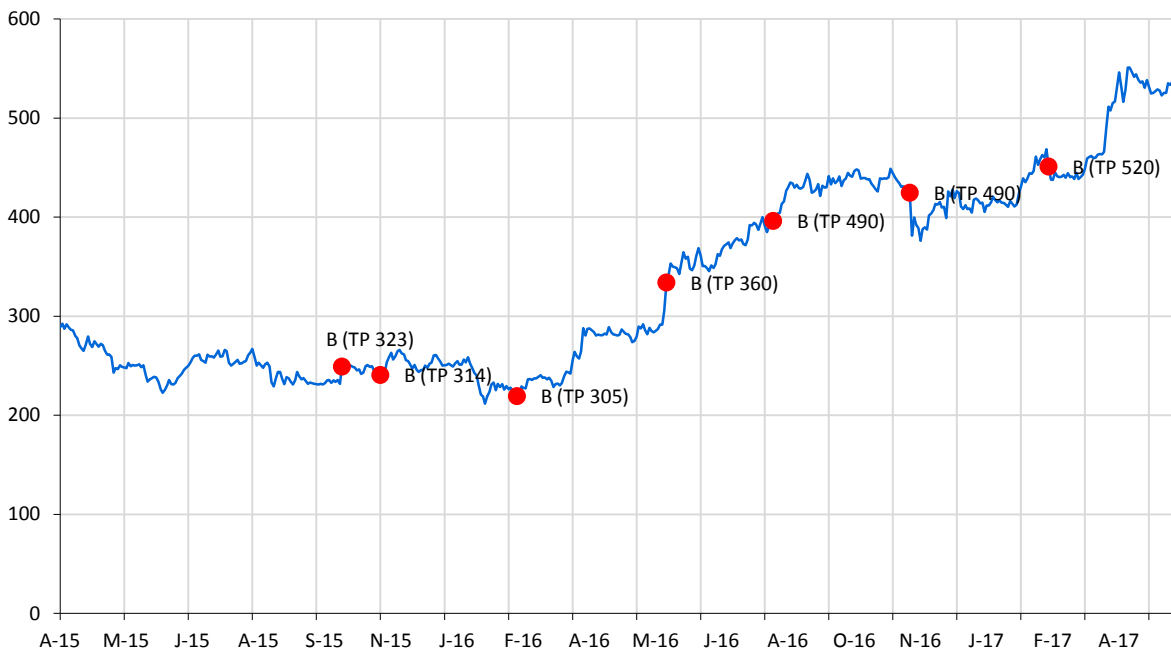
Cash Flow

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Pre-tax profit	3,364	4,193	4,526	5,049
Depreciation	572	480	493	524
Chg in working capital	-168	-857	-389	-400
Total tax paid	-480	-1,119	-1,086	-1,212
Other operating activities	-312	-718	-968	-1,006
Cash flow from operating activities	2,976	1,981	2,576	2,955
Capital expenditure	-148	-357	-550	-750
Chg in investments	-1,950	-1,954	-1,000	-1,000
Other investing activities	291	1,002	1,006	1,038
Cash flow from investing activities	-1,807	-1,309	-544	-712
Free cash flow	1,169	672	2,032	2,243
Debt raised/(repaid)	-755	-256	0	0
Dividend (incl. tax)	-331	-552	-552	-644
Other financing activities	-90	-43	-37	-32
Cash flow from financing activities	-1,176	-851	-590	-676
Net chg in cash	-7	-179	1,442	1,567

Valuation Ratios

	FY16	FY17	FY18e	FY19e
Per Share data				
Dil. EPS (INR)	16.3	20.7	22.5	25.1
Growth, %	25.3	26.9	8.9	11.6
Book NAV/ FD share (INR)	104.3	122.8	141.6	162.5
CEPS (INR)	20.1	23.8	25.7	28.5
CFPS (INR)	19.5	12.9	16.8	19.3
DPS (INR)	2.5	3.0	3.0	3.5
Return ratios				
Return on assets (%)	13.0	14.6	13.9	13.6
Return on equity (%)	17.4	18.2	17.0	16.5
Return on capital employed (%)	22.3	23.6	22.1	21.4
Turnover ratios				
Sales/Total assets (x)	1.5	1.4	1.3	1.3
Sales/Net FA (x)	6.0	6.4	6.9	7.2
Working capital/Sales (x)	0.2	0.2	0.3	0.3
Fixed capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	18.7	17.8	17.8	17.8
Inventory days	56.9	77.5	77.5	77.5
Loans, Adv (days)	16.1	8.9	8.9	8.9
Payable days	41.2	35.0	35.0	35.0
Working capital days	50.5	69.1	69.2	69.2
Liquidity ratios				
Current ratio (x)	3.2	3.5	4.0	4.5
Quick ratio (x)	1.8	1.6	2.1	2.5
Interest cover (x)	35.3	85.8	105.9	136.7
Dividend cover (x)	6.5	6.9	7.5	7.2
Total debt/Equity (%)	0.0	0.0	0.0	0.0
Net debt/Equity (%)	(0.1)	(0.1)	(0.1)	(0.2)
Valuation				
PER (x)	30.8	24.3	22.3	20.0
PEG (x) - y-o-y growth	1.2	0.9	2.5	1.7
Price/Book (x)	4.8	4.1	3.5	3.1
Yield (%)	0.5	0.6	0.6	0.7
EV/Net sales (x)	3.0	2.9	2.6	2.3
EV/EBITDA (x)	17.9	15.2	13.9	12.3
EV/EBIT (x)	20.9	17.0	15.4	13.6

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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